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BOARD OF SUPERVISORS:

San Francisco Senior Action Network Did Not Use City Funds for Political Purposes



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FINANCIAL AUDITS



September 28, 2006
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FINANCIAL AUDITS



*September 28, 2006
05079*



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

September 28, 2006

Audit Number 05079

Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

President and Members:

The Office of the Controller (Controller) presents its report concerning the audit of the San Francisco Senior Action Network (Senior Action Network) and its compliance with the City and County of San Francisco (City) ordinance prohibiting the use of city funds for political activity.

Senior Action Network received three grants, totaling \$520,848, from city departments to provide education and outreach services for the elderly and to educate senior, youth and disabled city voters about ranked-choice voting. Senior Action Network was paid the full amount of each of the three agreements and is subject to the City's prohibition on political spending.

We conducted this audit to meet the San Francisco Administrative Code (Administrative Code) requirement that the Controller audit annually at least 10 persons or entities that enter into contracts, grants, or loan agreements with the City. The Controller seeks to ensure that the persons or entities comply with Section 12G of the Administrative Code, which prohibits the use of city funds for political activity. The Administrative Code defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure.

Senior Action Network did not use for political activity any of the \$520,848 in city funds it received from July 1, 2004 through June 30, 2005.

Respectfully submitted,

Ed Harrington
Controller

INTRODUCTION

BACKGROUND

The prohibition against using city funds for political activity became part of the San Francisco Administrative Code (Administrative Code) after voters in the City and County of San Francisco (City) passed Proposition Q on November 5, 2002. The former proposition is now Section 12G of the Administrative Code, which defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. Chapter 12G also requires that all city contracts, grants, and loan agreements disclose the prohibition.

Each fiscal year, the Administrative Code requires the Office of the Controller to audit at least 10 persons or entities that enter contracts, grants or loan agreements with the City. This year we selected San Francisco Senior Action Network, a California nonprofit public benefit corporation, as one of our mandated audits.

Senior Action Network received \$520,848 for services during fiscal year 2004-05 from three city departments. It received \$358,196 from the Human Services Agency for programs serving the elderly and disabled adults of the community; \$100,000 from the Mayor's Office of Community Development primarily to facilitate enrollment of seniors in the Medicare drug discount program; and \$62,652 from the Department of Elections to educate voters about the ranked choice voting method.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine if Senior Action Network inappropriately expended any city funds participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure.

To conduct the audit, we identified that the organization had three grant agreements with city departments that include the prohibition of using city funds for political activity. We identified all payments that the departments made to Senior Action Network from July 1, 2004 through June 30, 2005. In addition, we assessed the organization's procedures for approving and recording financial transactions; tested, on a sample basis, expenditure of grant funds; and asked the executive director whether Senior Action Network had spent city or other funds for purposes related to political activity. Finally, we searched the San Francisco Campaign Finance Database and the State of California's Cal-Access database to find any instances where Senior Action Network made campaign contributions.



AUDIT RESULTS

Senior Action Network Did Not Use City Funds for Political Activities

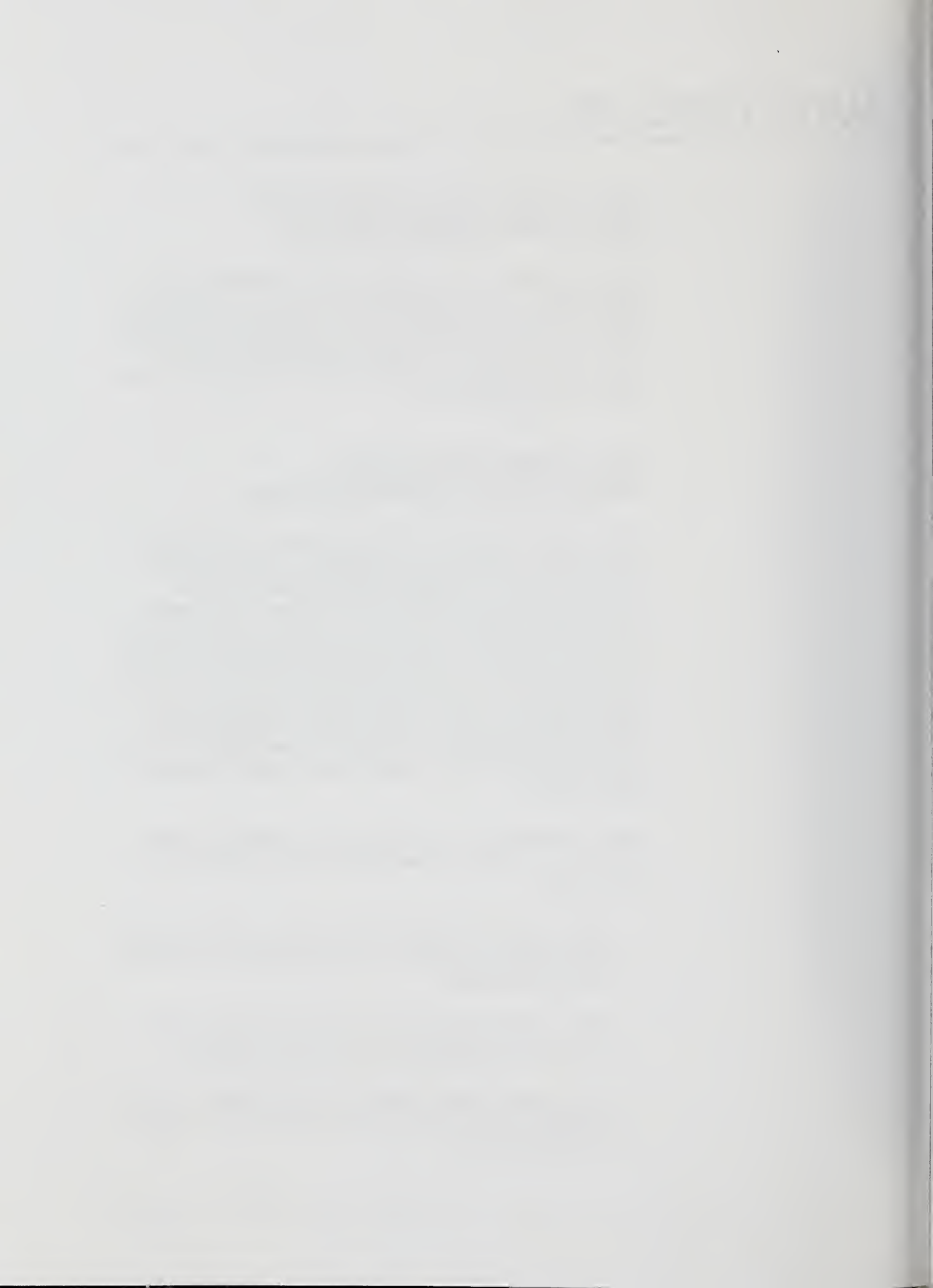
Senior Action Network did not use any of the \$520,848 of city grant funds that it received to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure. We also obtained written management representation that Senior Action Network did not use any city funds to pay for expenditures related to any political activity.

Senior Action Network Used Its Own Funds for Political Activities

Senior Action Network's accounting records showed that it paid for political activities; however, the payments were made from non-city sources of funds. The city grant funds of \$520,848 represented 59 percent of Senior Action Network's total annual revenue for the audit period, and it had sufficient additional funds from non-city sources to pay for political activities. Senior Action Network made a cash contribution to one ballot measure campaign and spent funds to pay the City's Department of Elections for ballot arguments for several ballot measures. Organizations can include a ballot argument in a pamphlet distributed to the voters by the City. This ballot argument can be for or against the specific ballot initiative.

All of the organization's political activity expenditures involved the November 2, 2004, election. Senior Action Network paid for the following:

- \$256 for a ballot argument for Proposition A, which proposed a bond measure to buy, build, or renovate housing for supportive or affordable housing.
- \$542 for a ballot argument for Proposition K, which would have created a temporary 0.1 percent gross receipts tax.
- \$262 for a ballot argument for Proposition N, which urged the United States (U.S.) government to withdraw all U.S. military personnel from Iraq.



- \$250 to *Send Our Troops Home*.

Of the three propositions, the City's voters only passed Proposition N by a simple majority of the votes.

Under federal Internal Revenue Service (IRS) regulations, nonprofit organizations may engage in a limited amount of political activities unrelated to campaigns for office without losing their tax exempt status. Nonprofit organizations can make an election with the IRS to report their amount of political activity expenditures annually to the IRS. Electing nonprofits may then participate in acceptable political activities up to a specified dollar limit each year. Senior Action Network has made such an election and reports the costs to the IRS on the required annual information return.

Finally, the City's Campaign Finance Database and the State of California's Cal-Access database did not show any additional political contributions other than those identified in this report by Senior Action Network or its executive director for the period under review.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Deborah Gordon, Audit Manager
Donna Crume

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

SENIOR ACTION NETWORK
RESPONSE TO THE AUDIT:

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Senior Action Network

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August 30, 2006

Mr. Ed Harrington
Controller
City and County of San Francisco
City Hall
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102

Dear Mr. Harrington:

This letter is regarding the audit of San Francisco Senior Action Network by the Controller's office under Section 12G of the Administrative Code. The audit found that Senior Action Network in fiscal year 2005-2006, "did not use for political activity any of the city funds it received under the three grant agreements."

Senior Action Network concurs with that assessment and accepts the results of that audit.

Sincerely,

Bruce Lee Livingston
Executive Director
Senior Action Network

